

# *State of South Carolina*



## *Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

April 13, 2006

Mr. Tony Masters, Controller  
Clarendon Memorial Hospital  
10 Hospital Street  
Post Office Box 550  
Manning, South Carolina 29102

Re: AC# 3-SMH-J3 – Clarendon Hospital District d/b/a Harper Nursing Center

Dear Mr. Masters:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

A handwritten signature in black ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Ms. Kathleen C. Snider

**CLARENDON HOSPITAL DISTRICT  
D/B/A HARPER NURSING CENTER**

**ESTILL, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2004  
AC# 3-SMH-J3**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 23, 2005

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Clarendon Hospital District d/b/a Harper Nursing Center, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Clarendon Hospital District d/b/a Harper Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

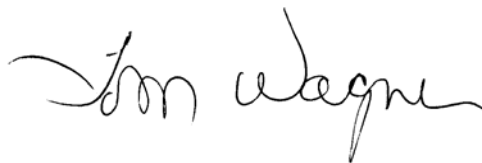
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Clarendon Hospital District d/b/a Harper Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Clarendon Hospital District d/b/a Harper Nursing Center dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
September 23, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Tom Wagner", with a stylized, cursive script.

Thomas L. Wagner, Jr., CPA  
State Auditor

**HARPER NURSING CENTER**  
Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2004  
AC# 3-SMH-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$105.62
Adjusted Reimbursement Rate	<u>102.84</u>
Decrease in Reimbursement Rate	\$ <u><u>2.78</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 16, 2005

**HARPER NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2004 Through September 30, 2005  
AC# 3-SMH-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$52.20	\$ 70.99	
Dietary		10.33	12.15	
Laundry/Housekeeping/Maintenance		<u>7.89</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	70.42	93.56	\$ 70.42
Administration & Medical Records	<u>\$3.02</u>	<u>12.04</u>	<u>15.06</u>	<u>12.04</u>
Subtotal		82.46	<u>\$108.62</u>	82.46
<u>Costs Not Subject to Standards:</u>				
Utilities		3.34		3.34
Special Services		-		-
Medical Supplies & Oxygen		2.36		2.36
Taxes and Insurance		1.45		1.45
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$89.61</u>		89.61
Inflation Factor (4.70%)				4.21
Cost of Capital				7.43
Cost of Capital Limitation				(.16)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.02
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.82)</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$102.84</u>

**HARPER NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,677,061	\$ 7,329 (7)	\$ -	\$1,684,390
Dietary	333,147	-	-	333,147
Laundry	52,477	-	-	52,477
Housekeeping	128,730	-	-	128,730
Maintenance	73,481	-	-	73,481
Administration & Medical Records	450,775	-	62,419 (7)	388,356
Utilities	107,893	-	-	107,893
Special Services	-	-	-	-
Medical Supplies & Oxygen	98,699	-	4,853 (4) 17,651 (6)	76,195
Taxes and Insurance	53,683	-	6,977 (2)	46,706
Legal Fees	-	-	-	-
Cost of Capital	235,939	737 (3) <u>6,035 (5)</u>	<u>2,900 (1)</u>	<u>239,811</u>
Subtotal	3,211,885	14,101	94,800	3,131,186



**HARPER NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Ancillary	115,210	4,853 (4)	-	120,063
Nonallowable	536,455	2,900 (1) 6,977 (2) 17,651 (6) <u>55,090 (7)</u>	737 (3) 6,035 (5)	612,301
Total Operating Expenses	<u>\$3,863,550</u>	<u>\$101,572</u>	<u>\$101,572</u>	<u>\$3,863,550</u>
Total Patient Days	<u>32,266</u>	<u>-</u>	<u>-</u>	<u>32,266</u>
Total Beds	<u>104</u>			

**HARPER NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Cost of Capital	\$ 2,900	\$ 2,900
	To adjust amortization expense State Plan, Attachment 4.19D		
2	Nonallowable Taxes and Insurance	6,977	6,977
	To adjust property tax expense HIM-15-1, Section 2304		
3	Other Equity Cost of Capital	742 737	
	Nonallowable Accumulated Depreciation		737 742
	To adjust depreciation expense HIM-15-1, Section 2304		
4	Ancillary Medical Supplies	4,853	4,853
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
5	Cost of Capital Nonallowable	6,035	6,035
	To adjust capital return State Plan, Attachment 4.19D		
6	Nonallowable Medical Supplies	17,651	17,651
	To disallow expense due to a lack of adequate documentation HIM-15-1, Section 2304		

**HARPER NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Nursing Administration	55,090 7,329	  62,419
	To adjust home office/hospital cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>102,314</u>	\$ <u>102,314</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**HARPER NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.63785</u>	<u>2.63785</u>	<u>2.63785</u>	
Deemed Asset Value (Per Bed)	41,198	41,198	41,198	
Number of Beds	<u>44</u>	<u>44</u>	<u>16</u>	
Deemed Asset Value	1,812,712	1,812,712	659,168	
Improvements Since 1981	97,006	20,795	7,562	
Accumulated Depreciation at 9/30/03	<u>(657,891)</u>	<u>(300,095)</u>	<u>(68,567)</u>	
Deemed Depreciated Value	1,251,827	1,533,412	598,163	
Market Rate of Return	<u>.0531</u>	<u>.0531</u>	<u>.0531</u>	
Total Annual Return	66,472	81,424	31,762	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,472	81,424	31,762	
Depreciation Expense	18,737	29,470	15,475	
Amortization Expense	-	-	-	
Capital Related Income Offsets	(1,493)	(1,493)	(543)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	83,716	109,401	46,694	\$239,811
Total Patient Days (Minimum 85% Occupancy)	<u>13,649</u>	<u>13,649</u>	<u>4,968</u>	<u>32,266</u>
Cost of Capital Per Diem	\$ <u>6.13</u>	\$ <u>8.02</u>	\$ <u>9.40</u>	\$ <u>7.43</u>

**HARPER NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 2003  
AC# 3-SMH-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.77	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$5.76</u>	<u>\$8.02</u>	<u>\$9.40</u>
Reimbursable Cost of Capital Per Diem		\$7.27	
Cost of Capital Per Diem		<u>7.43</u>	
Cost of Capital Per Diem Limitation		<u>\$(.16)</u>	

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